

~~CONFIDENTIAL~~ [redacted]

(b) (1)
(b) (3)

Cliff
A7



Implications of TCGP Collapse

[redacted]

26 July 2000

[redacted] Implications of the Failure of the Trans-Caspian Gas Pipeline

1. [redacted] The collapse of the Trans-Caspian Gas Pipeline (TCGP) project will change regional gas export dynamics and enhance the position of Azerbaijan at the expense of Turkmenistan, but will not retard momentum on other US-supported east-west energy transportation routes.

- A refocusing of interest on exports of Azerbaijani gas to Turkey might even provide additional momentum for the Baku-Tbilisi-Ceyhan oil pipeline because a shared right-of-way and some potential joint facilities would reduce the costs of both projects.

2. [redacted] *Turkmenistan stands to lose the most from TCGP's failure*; it is at risk of becoming economically and politically isolated and will be less able to balance pressures from Russia and Iran. While Niyazov can mitigate future economic pressures by selling gas to Russia's Gazprom, TCGP's disappearance as a viable option has robbed him of his bargaining leverage on price, and cooperation with Russia could entail a renewed dependency on Russia.

- [redacted]

This summary has been prepared by analysts in the Office of Russian and European Analysis's [redacted] and Office of Transitional Issue's [redacted] *Analysis is indicated in bold italics.* Comments and questions can be directed to the [redacted]

APPROVED FOR RELEASE
DATE: AUG 2004

~~CONFIDENTIAL~~ [redacted]

02 D356, 18189

3. *Moscow and Tehran probably view TCGP's collapse as a setback to US efforts to establish an independent route for Turkmen gas exports and, more broadly, a victory for their efforts to limit US influence in a region each regards as its rightful sphere.* Although the project's failure may have reinforced regional perceptions that Russia will remain the heavyweight power, both Moscow's and Tehran's levers are limited.

- As with Turkmenistan, other countries in the region remain wary of Russian and Iranian influence and intentions and carefully guard their sovereignty.
- Turkish officials have made it clear that they do not want to increase their gas dependence on Russia and Iran beyond the current plans for the Blue Stream and Iran-Turkey pipelines.

4. *Azerbaijan will be the clearest winner.* Buoyed by its newfound gas resources and freed from the constraints of cooperating with Turkmenistan on TCGP, Baku is pursuing an independent gas export pipeline for its own considerable gas resources. Such a line, whether it transited Georgia or Iran, could be completed by 2002—more quickly than TCGP—and would provide Baku with considerable new revenue. In addition to the increased revenue, an independent gas pipeline to Turkey would help anchor Azerbaijan to the West—a critical political goal for Aliyev—while further cementing its perception of being an indispensable hub for Caspian energy resources.

- On a recent visit to Baku, Turkish President Sezer agreed that Turkey would negotiate to buy Azerbaijani gas from Shah Deniz field. Working groups have been formed for that purpose.
- The proposed incremental volume buildup starting at 5 billion cubic meters per year (bcm/y) with the potential to grow to 16-20 bcm/y could work in Turkey's favor.

Timing, however, for this action is critical. A delay in Azerbaijan's pipeline project would enable Russia and Iran to gain a firm foothold in Turkey. Russia is a keen competitor—as evidenced by its tactics in Europe—and could undercut Azerbaijan's prices, rendering a delayed Azerbaijani pipeline uneconomical.

5. *The implications for Turkey—the destination for TCGP gas volumes—look positive.* Turkey is already experiencing a severe gas deficit and would benefit from the quicker completion of a gas line from Azerbaijan.

- Turkey remains hopeful that TCGP can somehow be resurrected and intends to keep the door open for Niyazov.